

Case No. **4:20-cv-05640-YGR**

Case Title ***Epic Games, Inc. v. Apple, Inc.***

Exhibit No. **DX-4172**

Date Entered _____

Susan Y. Soong, Clerk

By: _____, Deputy Clerk



Play growth strategy & Inorganic options

March 2020

ATTORNEY-CLIENT PRIVILEGES AND CONFIDENTIALITY REFLECTS LEGAL SERVICE

Contents :

- Current state of Play
- Headwinds and ecosystem trends limiting Play
- Our approach to deal with headwinds so far
- Framework to arrive at long term strategy
- Growth areas for Play to double down on
- Proposed strategy and inorganic options
- Deep dive on two potential inorganic options

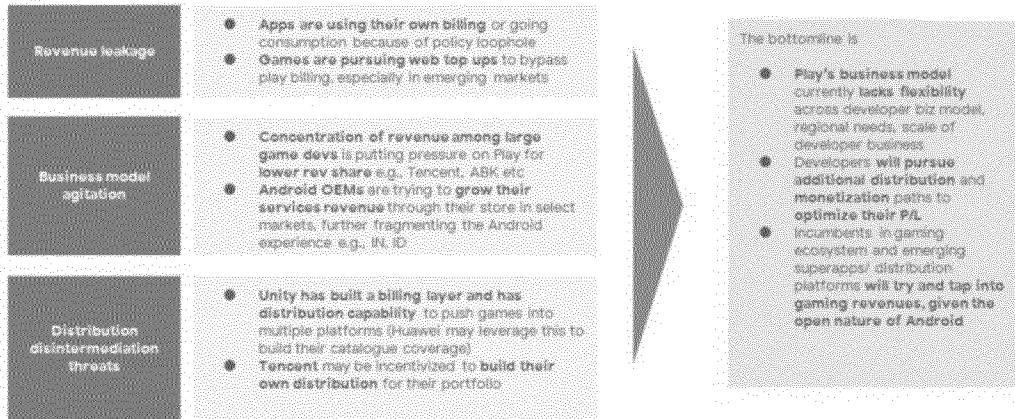
AC PROVIDED // SUBJECTS LEGAL ADVICE

Play operates at **Fortune 100 scale** and posted **strong results in 2019**

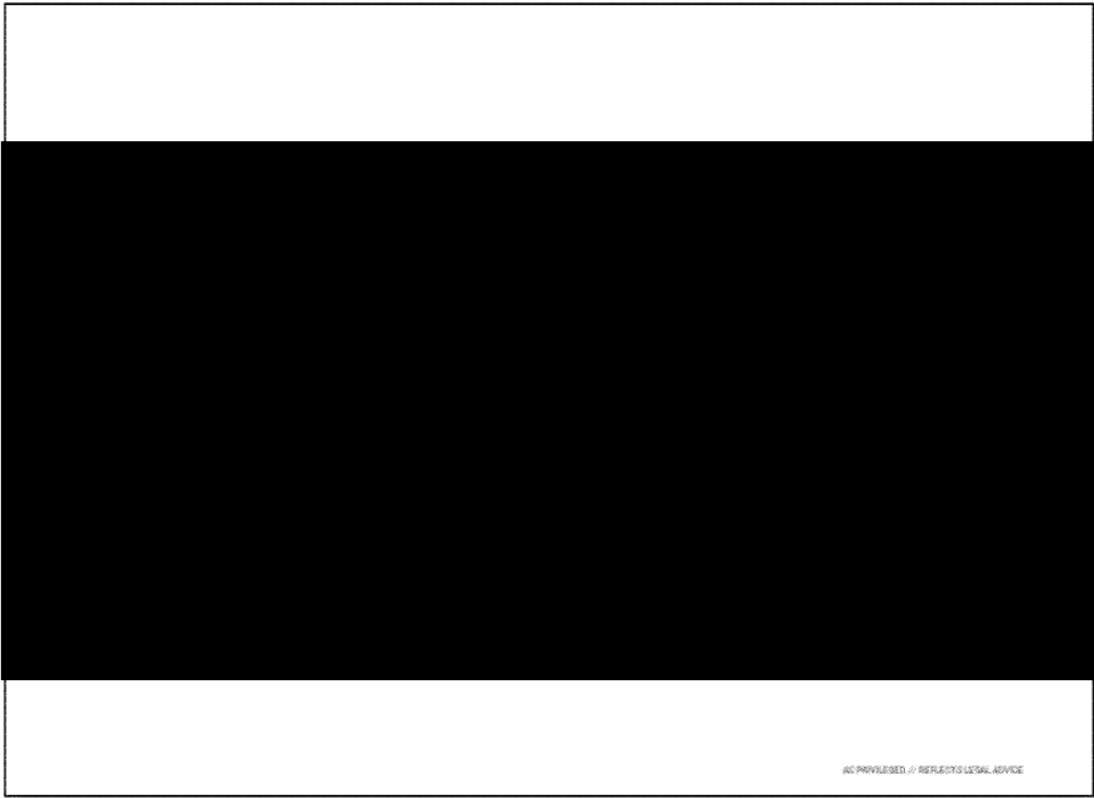


40 PRIVILEGED // REFLECTS LEGAL ADVICE

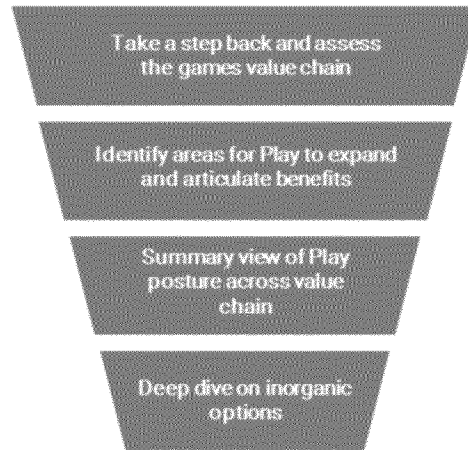
However, there is a mix of agitation and leakage that continues to distract and limit Play's growth



AS PROVIDED // REFLECTS LEGAL ADVICE

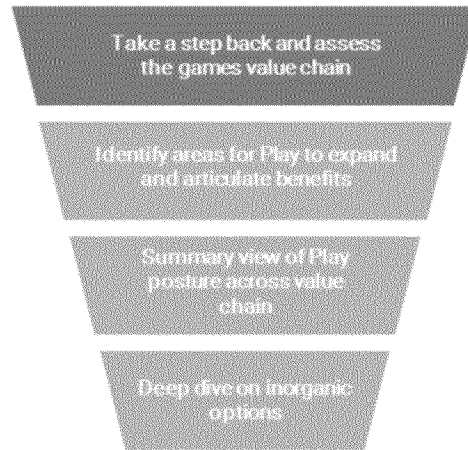


Approach to arrive at sustainable strategy for Play



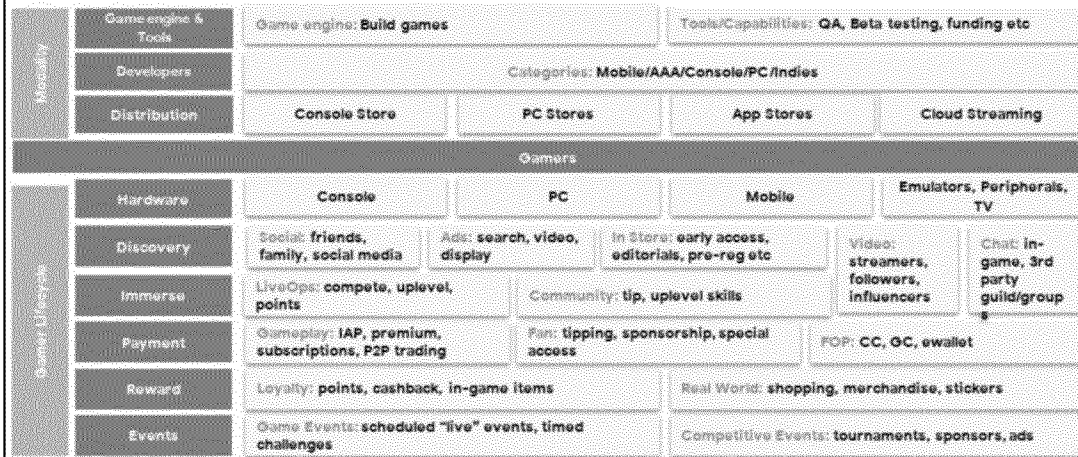
AC-PRIVILEGED // REFLECTS LEGAL ADVICE

Approach to arrive at sustainable strategy for Play



AC-PRIVILEGED // REFLECTS LEGAL ADVICE

Gaming value chain is complex and evolving



AC PROVIDED // REFLECTS LEGAL ADVICE

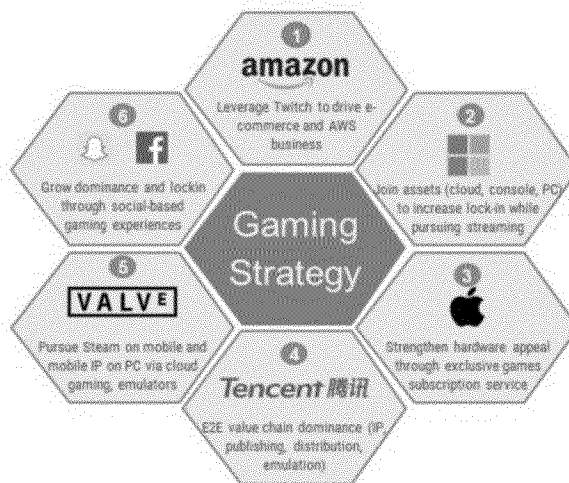
Revenue pools, business model and key players

Value chain	Revenue Pool		Business model	Key players
Monetization	Game Engines & Tools		License fees, ads and revenue share agreements for game engines, revenue from other dev/testing tools	Unity (Full Analysis), Unreal
	Developers		Monetization of game titles owned by studios and indies through ads, IAP, subscriptions and paid downloads	Tencent, NetEase, Riot, Activision, NCsoft, Nexon, EA, Ubisoft etc
	Distribution		Revenue share for platforms to distribute games across various devices - mobile, PC and consoles	App Store, Google Play, Samsung store, VOX stores, Steam, Epic
Gamers (across China and ROW)				
Channel / Lifecycle	Hardware		Hardware, peripheral sales	Apple, Samsung, VOX, Huawei
	Discovery		Ads	App stores, social (FB, Youtube)
	Immerse		Ads	Steam, Discord, Bunch, Youtube, FB
	Payment	Fragmented ecosystem with minimal monetizations		
	Reward			
	Events			

AS PROVIDED // REFLECTS LEGAL ADVICE

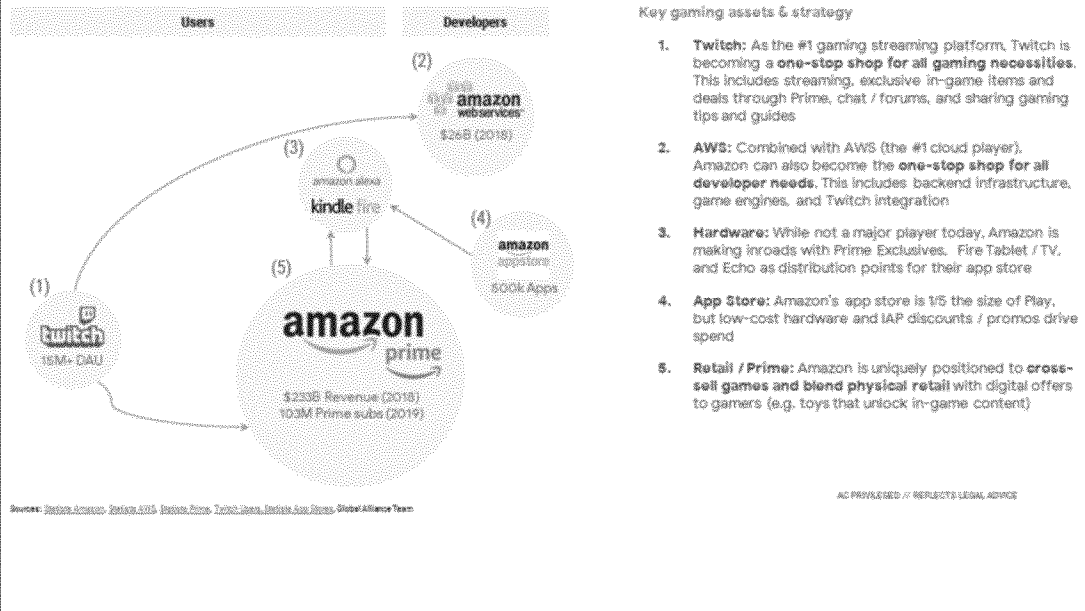
AS PROVIDED // REFLECTS LEGAL ADVICE

Many ecosystem players are investing in gaming assets and capabilities not just to win in gaming, but also to use gaming to grow their core business



AC PROVIDED: 17 REFLECTS LEGAL ADVICE

Amazon is investing in a full suite of cloud tools for developers and building communities for users to reinforce their ecosystem value and retail business



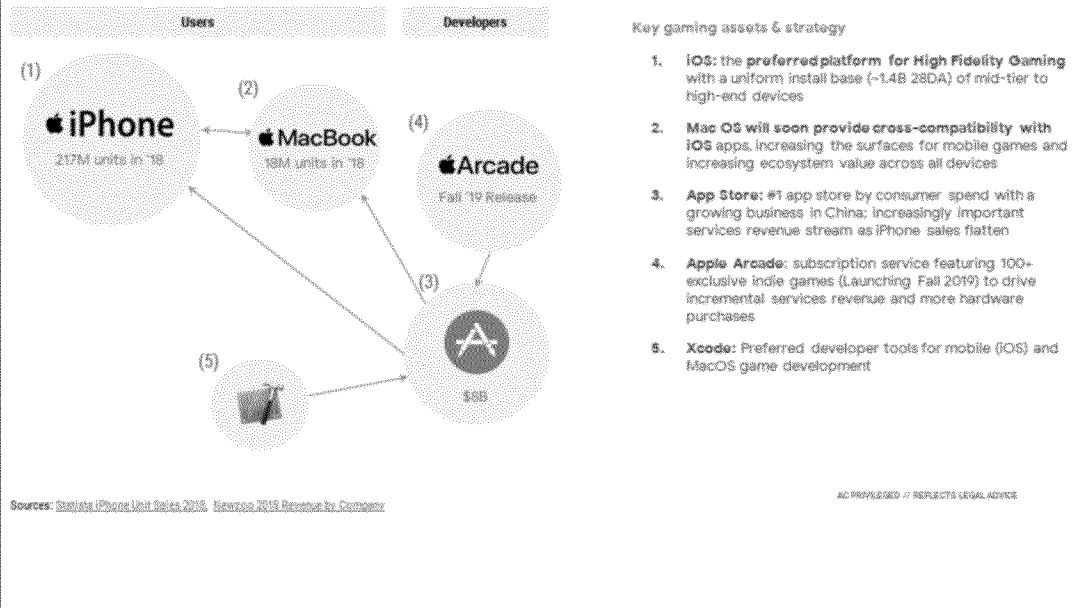
Amazon - Services oriented, developer stack. Twitch harnesses game communities.
(why? Because core biz is AWS/retail)

The diagram illustrates the gaming ecosystem with four nodes, each representing a different platform or service. Arrows indicate relationships between these nodes.

- (1) Xbox:** Primary gaming console business, likely to evolve into portable/mobile hybrid, similar to Switch, and include cloud gaming at its core. Through Xbox Live, they also offer community-centric features, including a mobile app. Revenue: \$11.2B (2019).
- (2) Windows:** Leading PC OS and preferred platform for PC developers and gamers. Merging Windows and Xbox OS, further reinforcing their gaming ecosystems and enabling Xbox Play Anywhere x-platform gaming strategy (only supports ~10% of titles today). Revenue: \$20.4B (2019).
- (3) Microsoft Studios:** In-house developer / publisher with strong IP (Minecraft, Halo, and Age of Empires) to drive gamer adoption of Xbox, Windows. Some titles (e.g. Minecraft) available across platforms today (including on Play). Revenue: \$31.8B (2019)*.
- (4) Azure:** Microsoft is developing a cloud gaming business powered by Azure to double down on services for game developers. Announced cloud streaming partnership with Sony (PlayStation) for joint development and content creation around next-gen console release cycle (Fall 2019).

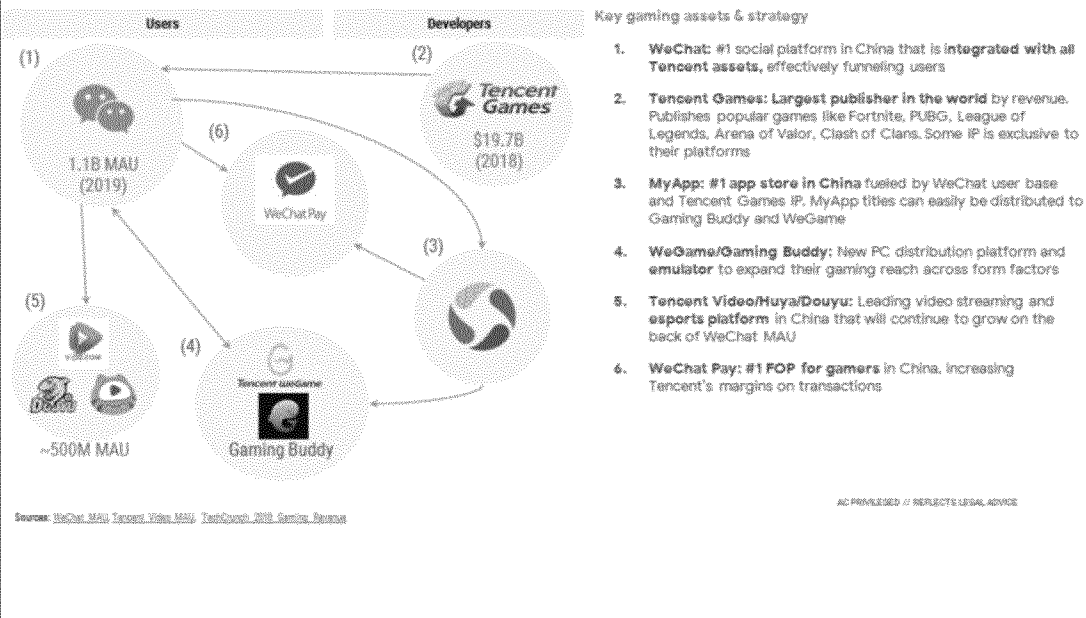
Arrows show the following relationships: Xbox (1) to Windows (2), Windows (2) to Xbox (1), Xbox (1) to Microsoft Studios (3), Microsoft Studios (3) to Xbox (1), and Microsoft Studios (3) to Azure (4).

Gaming is a key differentiator and driver of services revenue as iOS continues to be the preferred mobile gaming platform for devs and users



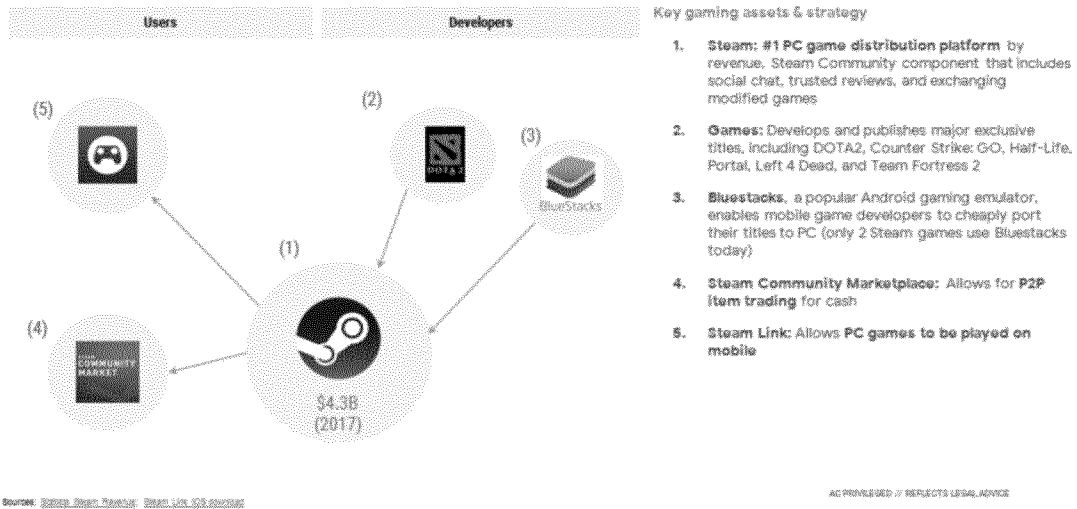
Apple - will be for games, what they are for music. All apple devices are effectively game oriented phones. (why? Because core biz is HW. Camera focus will be less of a differentiator, games will be their future diff)

Tencent is the prime example of a vertically integrated gaming experience with assets across the value chain working in sync

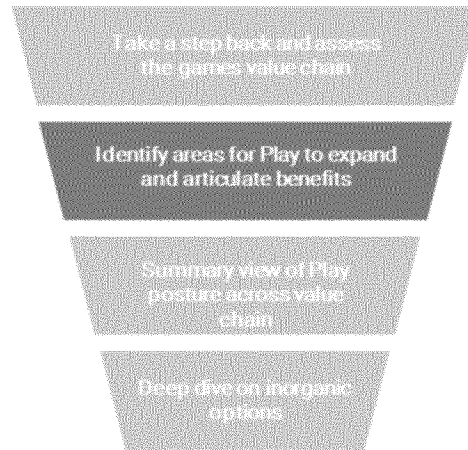


Tencent as examples (core biz is VC - owns all the top game developers, owns stake in social products (WeChat), and “owns” China... bring together pieces through investment)

Valve's success in PC distribution comes from their focus on creating the best gamer lifecycle experience, through sticky communities and invaluable IPs

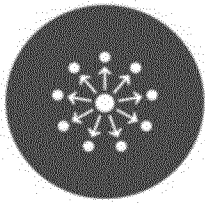


Approach to arrive at sustainable strategy for Play

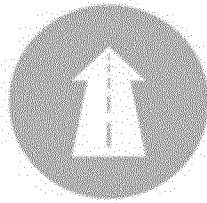


AC-FRONTLINED // REFLECTS LEGAL ADVICE

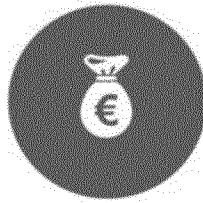
We have identified four expansion opportunities for Play to grow revenues and in parallel mitigate agitation and secure Android



— Expand
Distribution —



— Geography
expansion —

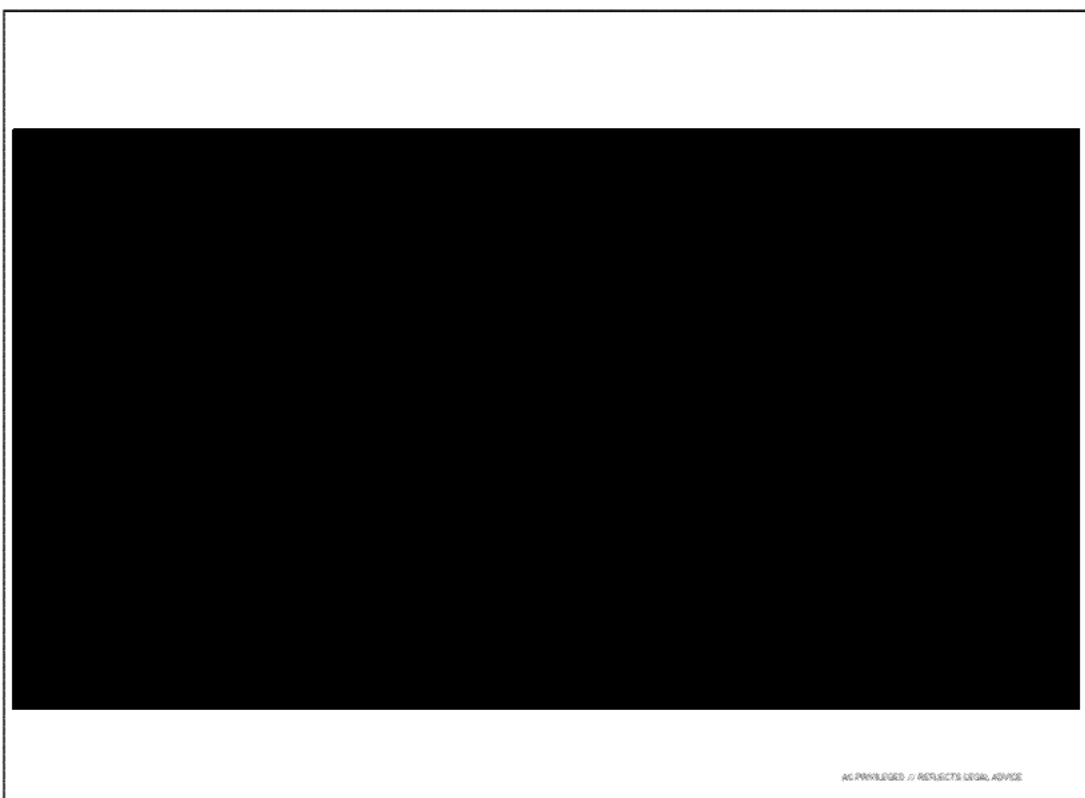


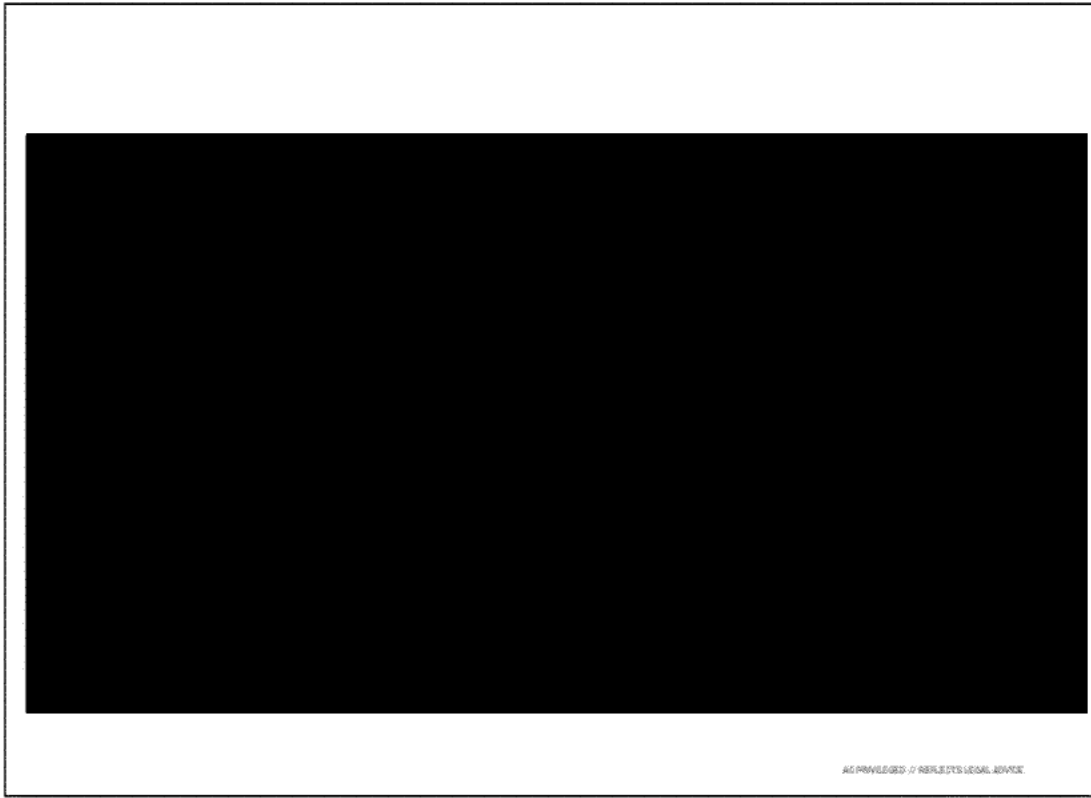
— New
business
models —

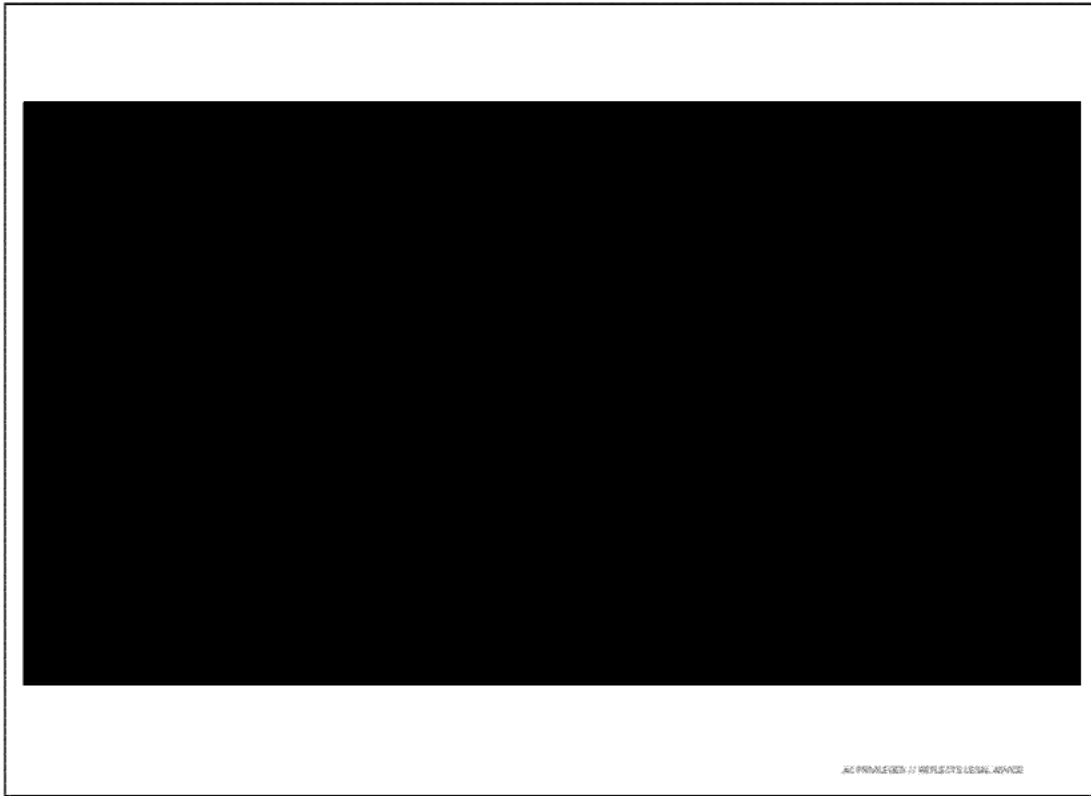


— Immersive
experiences —

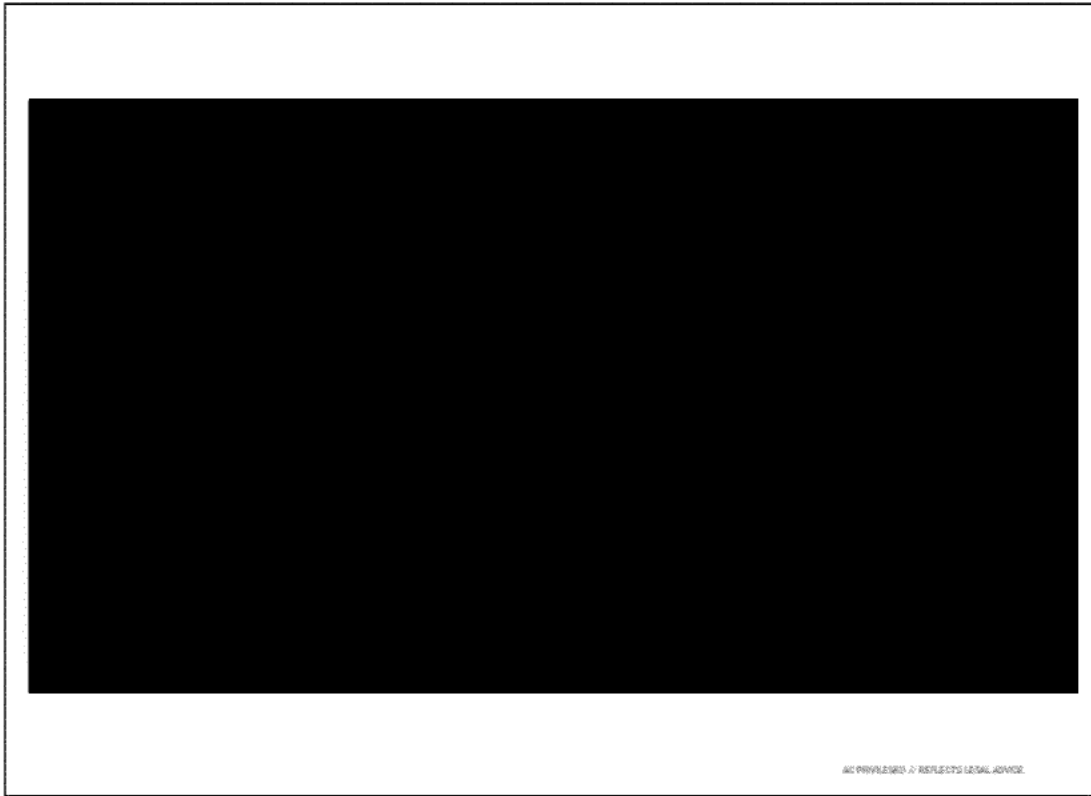
AC PROVIDED // ASPLC'S LEGAL ADVICE







ALL INFORMATION IS UNCLASSIFIED



In summary

We will be addressing new market opportunity of
Increase reach to new users
Introduce new products & business model

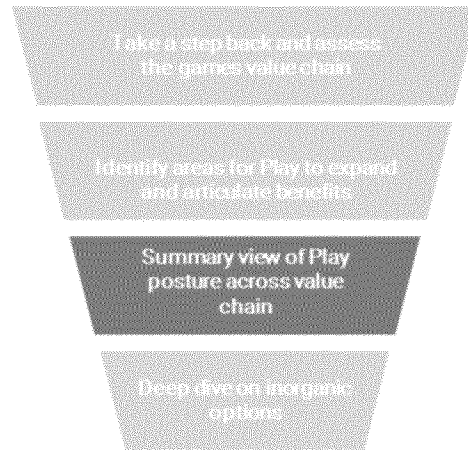


and...

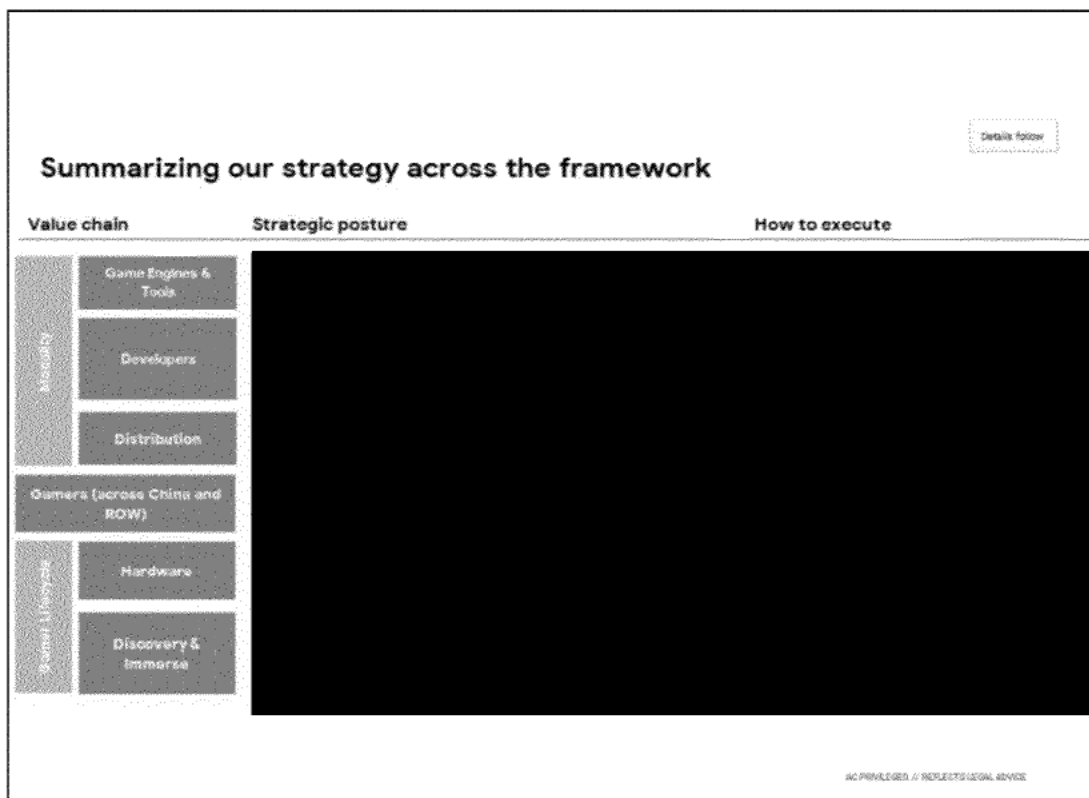
- Derisk threats to Play from rev share agitation and regulatory exposure
- Differentiate & strengthen Android value prop, compared to iOS and Huawei

ALL PRIVILEGED // REFLECTS LEGAL ADVICE

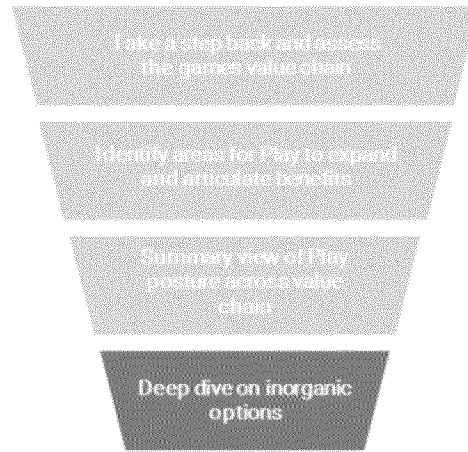
Approach to arrive at sustainable strategy for Play



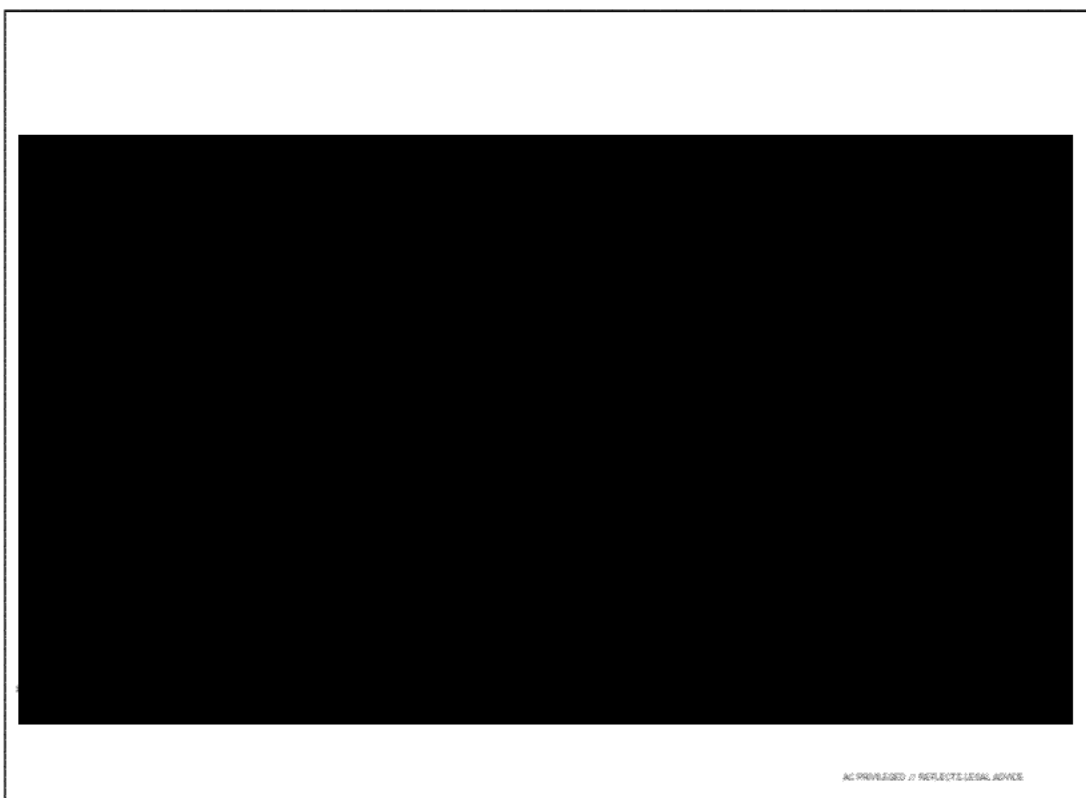
AC-PRIVILEGED // REFLECTS LEGAL ADVICE



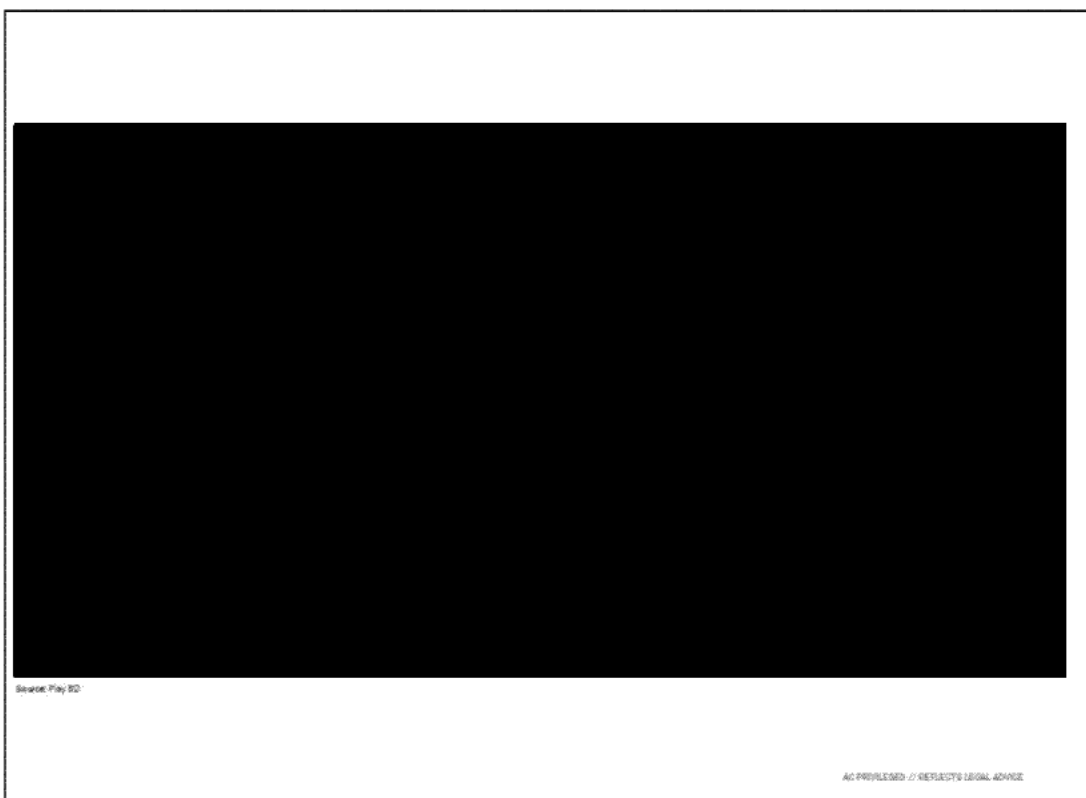
Approach to arrive at sustainable strategy for Play



AC-PRIVILEGED // REFLECTS LEGAL ADVICE



ALL INFORMATION CONTAINED HEREIN IS UNCLASSIFIED EXCEPT WHERE SHOWN OTHERWISE



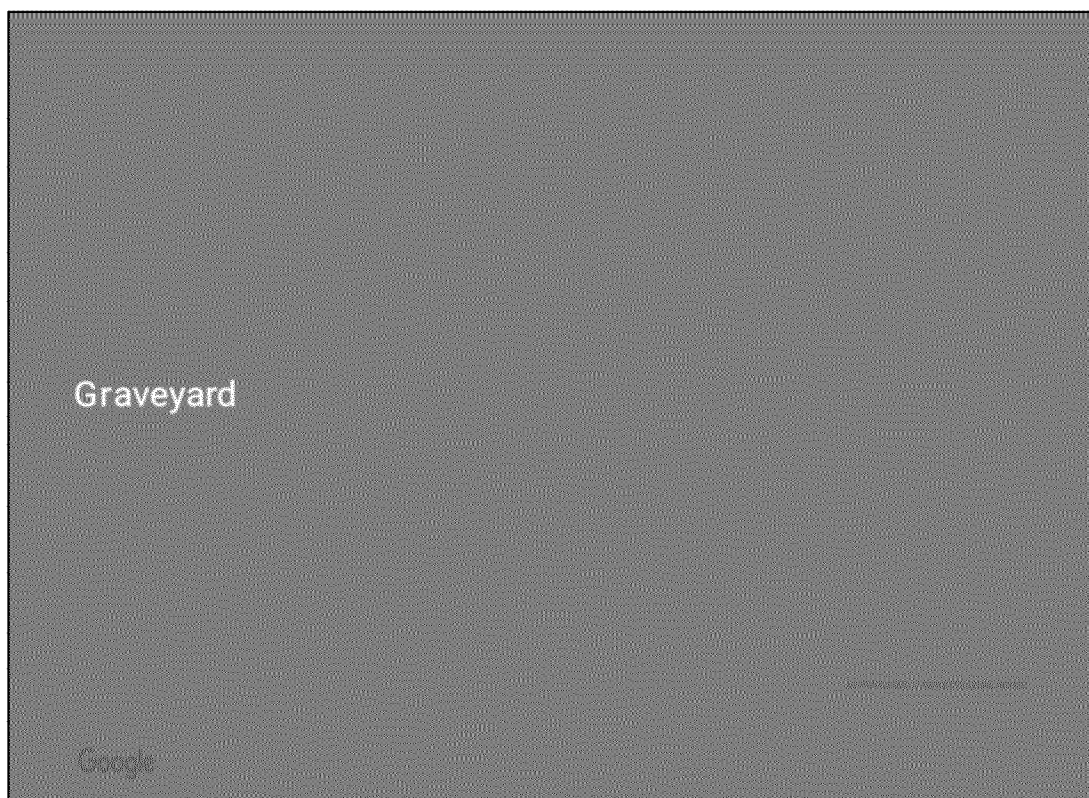
Appendix 1 - PC/China gamemarket size

Google



Source: News20

AG PREVIOUSLY SET // PREVIOUSLY SET LEGAL ADVISE



What should be our aspiration for Google Play

- **Catalogue:** Provide a comprehensive catalogue of apps and games to our users
- **Users:** Be known for best in class gaming experience for our users across their lifecycle
- **Developers:** Maximize reach for our developers across relevant consumption modalities
- **Business model:** Arrive at a sustainable and defensible business model to grow play revenues
- **Ecosystem:** Move gaming industry forward with new platform, product and commercial innovations and differentiate compared to other stores
- **Policy & Regulation:** Have a clear and consistent policy which is defensible and enforced
- **Trust & Safety:** Be the safest and most trusted app store in the ecosystem

AC PROVIDED // SUBJECT'S LEGAL ADVICE

These agitations are **AMPLIFIED** by ecosystem changes, which gives developers optionality

Additional distribution channels	<ul style="list-style-type: none">● Android OEM app store are growing in reach and engagement: (Xiaomi, Oppo, Vivo are installed on only 10-15% of devices in SEA/SA, Samsung Galaxy store on 31%)● Huawei is investing millions to attract developers to app gallery with a lower rev share
Off Play monetization	<ul style="list-style-type: none">● Web top ups is growing threat in SEA and India (e.g., 35% of top dev rev in ID)● Large developers (garena, Tencent portfolio) are citing FOP coverage issues to justify webtop ups● Unicorn startups in SEA (e.g., Tokopedia) are expanding to tap into game revenue
Regulatory deadlock	<ul style="list-style-type: none">● Current EU case, P2B legislations are having Google and in turn Play tread cautiously● Potential agitation from certain developers in distracting and limiting Play's ability to implement and enforce broad brush policy changes of non compliant players
Distribution disintermediation threats	<ul style="list-style-type: none">● There is credible evidence that Unity is looking at disintermediating Play through their billing platform and 1 click distribution to all stores capability● Tencent portfolio concentration (~12% of play rev) and HUG holdout can push them towards additional distribution arrangements beyond Play

AC PROVIDED / REFLECTS LEGAL ADVICE